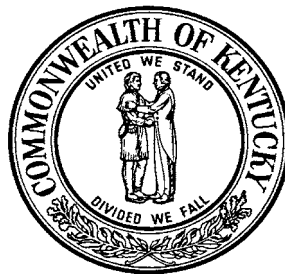


**LETTER FROM THE AUDITOR OF PUBLIC ACCOUNTS  
CABINET FOR FAMILIES AND CHILDREN**

**In Reference to the Statewide Single Audit  
of the Commonwealth of Kentucky**

**For the Year Ended June 30, 2002**



**EDWARD B. HATCHETT, JR.**  
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## CONTENTS

MANAGEMENT LETTER .....	1
LIST OF ABBREVIATIONS/ACRONYMS .....	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	4
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS .....	6
FINANCIAL STATEMENT FINDINGS .....	9
<i>Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance</i> .....	9
FINDING 02-CFC-1: The Cabinet For Families And Children Should Strengthen Security Surrounding Administrator Accounts .....	9
FINDING 02-CFC-2: The Cabinet For Families And Children’s Password Policy Should Be Consistently Applied To All Local Area Network Servers .....	10
<i>Other Matters Relating to Internal Controls and/or Compliance</i> .....	12
FINDING: 02-CFC-3: The Cabinet For Families And Children Should Ensure All User Accounts On Its Agency Servers Are Necessary .....	12
FINDING: 02-CFC-4: The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized .....	14
FINDING: 02-CFC-5: The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose .....	16
FINDING: 02-CFC-6: The Cabinet For Families And Children Should Remove The Simple Network Management Protocol Service Or Change The Default Community String .....	18
FINDING 02-CFC-7: The Cabinet For Families and Children Should Ensure Computer Equipment Is Properly Inventoried And Insured .....	19
FINDING: 02-CFC-8: The Cabinet For Families and Children Should Improve Disaster Recovery Procedures .....	20
FINDING: 02-CFC-9: The Cabinet For Families And Children Should Strengthen The Logical Security Procedures Over The System Tracking For Employability Programs .....	22
FINDING 02-CFC-10: The Cabinet For Families and Children Should Ensure System Access Request Forms Are Readily Available .....	23
FINDING 02-CFC-11: The Cabinet For Families and Children Should Correctly Code Expenditures To Area Development Districts .....	25

## CONTENTS

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS .....	27
<i>Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance</i> .....	27
FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed.....	27
FINDING 02-CFC-14: The Cabinet For Families And Children Should Monitor Cases Closely So An Ineligible Recipient Does Not Receive Additional Months Of Benefits.....	34
FINDING 02-CFC-15: The Cabinet For Families And Children Should Maintain And Produce Records to Adequately Support Expenditures .....	37
<i>Other Matters Relating to Internal Controls and/or Compliance</i> .....	39
FINDING 02-CFC-13: The Cabinet For Families And Children Should Maintain Medical Support Information In The Kentucky Automated Support And Enforcement System .....	39
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS .....	43



EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children

**MANAGEMENT LETTER**

This letter presents the results of our audit of the Cabinet for Families and Children (CFC), performed as part of our annual Statewide Single Audit of the Commonwealth of Kentucky.

In planning and performing our audit of the financial statements of the Commonwealth for the year ended June 30, 2002, we considered CFC's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. We also performed an audit on compliance with requirements applicable to major federal programs, as well as the Schedule of Expenditures of Federal Awards. We noted certain matters involving internal control, compliance and its operation that we are including in this letter. Some findings are considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control and compliance that, in our judgment, could adversely affect CFC's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions could also adversely affect CFC's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements or federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described herein is believed to be a material weakness.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Viola Miller, Secretary  
Cabinet for Families and Children

Some findings are Other Matters that we have included in this report to communicate with management in accordance with Government Auditing Standards.

Included in this letter are the following:

- ◆ Acronym List
- ◆ Schedule of Expenditures of Federal Awards
- ◆ Notes to the Schedule of Expenditures of Federal Awards
- ◆ Findings (Reportable, Material and Other Matters)
- ◆ Summary Schedule of Prior Year Audit Findings

We have issued our Statewide Single Audit of the Commonwealth of Kentucky that contains CFC's findings, as well as those of other agencies of the Commonwealth. This report can be viewed on our website at [www.kyauditor.net](http://www.kyauditor.net).

This letter is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

## **LIST OF ABBREVIATIONS/ACRONYMS**

ADDs	Area Development Districts
APA	Auditor of Public Accounts
BDC	Backup Domain Control
CCDBG	Child Care and Development Block Grant
CFC	Cabinet for Families and Children
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
CHS	Cabinet for Health Services
Commonwealth	Commonwealth of Kentucky
CPA	Certified Public Accountant
CSE	Child Support Enforcement
DCBS	Department of Community Based Services
DNS	Domain Name Server
DOI	Department of Insurance
EBT	Electronic Benefits Transfer
ERA	Employment Retention Assistance
FTP	File Transfer Protocol
FY	Fiscal Year
GOT	Governor's Office for Technology
IRC	Internet Relay Chat
KAMES	Kentucky Automated Management and Eligibility System
KASES	Kentucky Automated Support and Enforcement System
KCCMS	Kentucky Child Care Management System
KRS	Kentucky Revised Statutes
KY	Kentucky
LAN	Local Area Network
LSA	Local Security Authority
MARS	Management Administrative Reporting System
NA	Not Applicable
NT	New Technology
OIG	Office of Inspector General
OMB	Office of Management and Budget
PA	Public Assistance
PDC	Primary Domain Control
PRWOA	Federal Personal Responsibility and Work Opportunity Reconciliation Act
RACF	Resource Access Control Facility
SAS	Statements on Auditing Standards
SNMP	Simple Network Management Protocol
SQL	Structured Query Language
STEP	System Tracking For Employability Programs
TANF	Temporary Assistance for Needy Families
TWIST	The Workers Information System
U.S.	United States
WtW	Welfare-to-Work
WWW	World Wide Web

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<b><u>U.S. Department of Agriculture</u></b>				
<b>Direct Programs:</b>				
<b>Food Stamp Cluster:</b>				
10.551	Food Stamps (Note 2) (Note 3) (Note 4)		\$ 393,743,563	
10.561	State Administrative Matching Grants for Food Stamp Program (Note 2)	\$ 25,362,111		\$ 247,814
<b><u>U.S. Department of Justice</u></b>				
<b>Passed Through From Department of Justice:</b>				
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	22,386		
<b><u>U.S. Department of Labor</u></b>				
<b>Direct Programs:</b>				
17.253	Welfare-to-Work Grants to States and Localities	1,931,493		2,035,224
<b><u>U.S. Department of Energy</u></b>				
<b>Direct Programs:</b>				
81.042	Weatherization Assistance for Low-Income Persons	3,002,036		2,846,777
<b><u>U.S. Department of Health and Human Services</u></b>				
<b>Direct Programs:</b>				
93.556	Promoting Safe and Stable Families	5,362,740		3,137,180
93.558	Temporary Assistance for Needy Families (Note 2)	188,712,921		12,922,364
93.563	Child Support Enforcement (Note 2)	43,140,200		21,767,181
93.568	Low-Income Home Energy Assistance (Note 2)	22,998,589		22,803,247
93.569	Community Services Block Grant	10,504,445		10,402,583
93.571	Community Services Block Grant Discretionary Awards - Community Food and Nutrition	63,025		63,025
<b>Child Care Cluster:</b>				
93.575	Child Care and Development Block Grant (Note 2)	16,236,252		11,699,573
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund (Note 2)	50,781,166		64,935

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

CFDA #	Program Title	Expenditures		Provided to Subrecipient
		Cash	Noncash	
<b><u>U.S. Department of Health and Human Services (Continued)</u></b>				
<b>Direct Programs (Continued):</b>				
93.597	Grants to States for Access and Visitation Programs	146,612		146,874
93.603	Adoption Incentive Payments	164,001		7,368
93.643	Children's Justice Grants to States	19,989		7,524
93.645	Child Welfare Services - State Grants	4,544,222		
93.658	Foster Care-Title IV-E (Note 2)	48,820,494		53,774
93.659	Adoption Assistance	13,474,440		
93.667	Social Services Block Grant (Note 2)	14,479,448		225,088
93.669	Child Abuse and Neglect State Grants	1,269,324		974,279
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	1,179,778		1,176,342
93.674	Chafee Foster Care Independent Living	1,877,675		488,048
NA	The Placement and Treatment of Neuropsychiatric Patients	86,281		
<b>Passed Through From Cabinet for Health Services:</b>				
93.767	State Children's Insurance Program	920,851		
<b>Medicaid Cluster:</b>				
93.778	Medical Assistance Program (Note 2)	17,717,086		9,379
<b><u>U.S. Corporation for National and Community Service</u></b>				
<b>Direct Programs:</b>				
94.003	State Commissions	198,415		
94.004	Learn and Serve America-School and Community Based Programs (Note 5)			
94.006	AmeriCorps	2,221,872		2,176,164
94.007	Planning and Program Development Grants	7,095		
94.009	Training and Technical Assistance	45,012		
<b><u>U.S. Social Security Administration</u></b>				
<b>Direct Programs:</b>				
<b>Disability Insurance/SSI Cluster:</b>				
96.001	Social Security-Disability Insurance (Note 2)	37,833,963		
<b>Total Cabinet For Families and Children</b>		<b>\$ 513,123,922</b>	<b>\$ 393,743,563</b>	<b>\$ 93,254,743</b>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies**

**Basis of Presentation** - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity administered by CFC, except those programs administered by state universities, and is presented primarily on the basis of cash disbursements as modified by the application of Kentucky Revised Statute (KRS) 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. The Commonwealth elected to exclude state universities from the statewide single audit, except as part of the audit of the basic financial statements.

KRS 45.229 provides that the Finance and Administration Cabinet may, “for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The basic financial statements of the Commonwealth are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Noncash assistance programs where applicable, are not reported in the basic financial statements of the Commonwealth for FY 02. The noncash expenditures presented on this schedule represent the noncash assistance expended by CFC using the method or basis of valuation described in Note 4.

Clusters of programs are indicated in the schedule by light gray shading.

**Inter-Agency Activity** - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the schedule:

- (a) Federal moneys may be received by a state agency and passed through to another state agency where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported by the agency expending the moneys.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)**

**Inter-Agency Activity (Continued)**

State agencies that pass federal funds to state universities report those amounts as expenditures.

- (b) Federal moneys received by a state agency and used to purchase goods or services from another state agency are reported in the schedule as an expenditure by the purchasing agency only.

**Note 2 - Type A Programs**

Type A programs for the Commonwealth mean any program for which total expenditures of federal awards exceeded \$17 million for FY 02. CFC had the following programs (cash and noncash) that met the Type A program definition for FY 02, some of which were administered by more than one (1) state agency. Certain component units and agencies audited by certified public accounting firms had lower dollar thresholds. CFC identified four (4) clusters among the Type A programs by gray shading. These Type A programs and clusters were:

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>Food Stamp Cluster:</b>		
<b>10.551</b>	Food Stamps	\$ 393,743,563
<b>10.561</b>	State Administrative Matching Grants for Food Stamp Program	25,362,111
<b>93.558</b>	Temporary Assistance for Needy Families	188,712,921
<b>93.563</b>	Child Support Enforcement	43,140,200
<b>93.568</b>	Low-Income Home Energy Assistance	22,998,589
<b>Child Care Cluster:</b>		
<b>93.575</b>	Child Care and Development Block Grant	16,236,252
<b>93.596</b>	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	50,781,166
<b>93.658</b>	Foster Care-Title IV-E	48,820,494
<b>93.667</b>	Social Services Block Grant	14,479,448

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

**Note 2 - Type A Programs (Continued)**

<b>CFDA #</b>	<b>Program Title</b>	<b>Expenditures</b>
<b>Medicaid Cluster:</b>		
<b>93.778</b>	Medical Assistance Program	17,717,460
<b>Disability Insurance/SSI Cluster:</b>		
<b>96.001</b>	Social Security – Disability Insurance	37,833,963
<b>Total Type A Programs</b>		<b><u>\$ 859,826,167</u></b>

**Note 3 - Activity Occurring in Programs With Inventoriable Items**

CFC received, stored, and distributed inventory items related to the Food Stamps (CFDA #10.551) program in prior years. However, due to the Electronic Benefit Transfer (EBT) distribution of food stamps benefits, inventory is no longer applicable.

**Note 4 - Noncash Expenditure Programs**

CFC's noncash program description of the method/basis of valuation follows:

<b>CFDA #</b>	<b>Program Title</b>	<b>Amount</b>	<b>Method/Basis of Valuation</b>
10.551	Food Stamps	\$393,743,563	Electronic Benefit Transfer Issuance

**Note 5 - Zero Expenditure Programs**

These programs had no expenditures related to CFC during FY 02. The zero expenditure programs included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

## **FINANCIAL STATEMENT FINDINGS**

### ***Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance***

#### **FINDING 02-CFC-1: The Cabinet For Families And Children Should Strengthen Security Surrounding Administrator Accounts**

---

While testing computer system vulnerability at the CFC, we found instances of lax security over administrator accounts, resulting in the potential of machines being vulnerable to intrusion. These instances vary in severity, but illustrate that CFC local area networks were vulnerable during FY 02.

We found one (1) machine in which we were able to gain “Master” access through Structured Query Language (SQL) (port 1433) using the default administrator logon. This type of access will provide an unauthorized user with complete access to the application. Further, the user would be granted local system account rights to the server on which the application resides.

The administrator account for one (1) server had not been renamed or disabled. Since the administrator cannot be locked out, if the account is not renamed, the server could be vulnerable to a potential intruder attempt to gain access by guessing the administrator password through a brute force attack.

Administrator accounts are very powerful and can allow full access to the system. Therefore, these accounts should be secured as much as possible. At a minimum, the passwords for these accounts should be changed from the system defaults. Further, some administrator accounts can be renamed to help obscure them from an unauthorized user’s view.

#### **Recommendation**

We recommend CFC review all machines to ensure the local administrator accounts have been changed from the default-naming conventions and require the use of a password. Further, all applications that might allow a user access to the system or to configuration settings should be reviewed to ensure that default logons are not allowed.

#### **Management’s Response and Corrective Action Plan**

*Port scans have been done on networks, specifically for Port 1433, to identify servers running SQL. If found open, SQL has been removed or the administrator password has been changed. We will continue to do Port scans to see that no unauthorized devices have SQL on them or that the passwords are set according to policy.*

## FINANCIAL STATEMENT FINDINGS

### *Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance*

#### **FINDING 02-CFC-2: The Cabinet For Families And Children's Password Policy Should Be Consistently Applied To All Local Area Network Servers**

As was noted in the prior audit, password policies established on servers did not adhere to CFC password policies. During the FY 02 audit, we were able to glean account-related information from 44 servers within three (3) CFC domains. We examined the password policies on these machines to ensure that they adhered to policy statements, Governor's Office for Technology (GOT) Password Strength Policies, and industry standards. The following table illustrates the outcome of this review.

<b>Security Measure</b>	<b>Standard</b>	<b>Number of machines not in compliance with policy (and the expiration setting on those machines)</b>	<b>Percentage of 41 machines not in compliance with policy</b>
Maximum Age	31 days – GOT	<b>33</b> = None <b>8</b> = 42 Days	<b>100%</b>
Minimum Age	1 day – GOT	<b>41</b> = None	<b>100%</b>
Minimum Length	5 characters – GOT	<b>33</b> = 4 <b>8</b> = None	<b>100%</b>
Lockout Threshold	5 attempts – GOT	<b>8</b> = None	<b>19.5%</b>
Lockout Duration	“Forever” – Industry Standard is set for 71,582,788 minutes (approximately 136.2 years)	<b>33</b> = 30 minutes <b>8</b> = 26 minutes	<b>100%</b>
Lockout Reset	1,440 minutes – Industry Standard	<b>33</b> = 30 minutes <b>8</b> = 25 minutes	<b>100%</b>

Passwords are an important aspect of computer security. They are the front line of protection for system access. To help ensure the security of a network, it is necessary for a strong password policy to be developed and implemented on all servers within the network in a consistent manner. If servers within a network are not sufficiently secured, the network could be compromised.

**FINANCIAL STATEMENT FINDINGS**

***Reportable Conditions Relating to Internal Controls and/or  
Reportable Instances of Noncompliance***

**FINDING 02-CFC-2: The Cabinet For Families And Children's Password Policy  
Should Be Consistently Applied To All Local Area Network Servers (Continued)**

---

**Recommendation**

We recommend that CFC review all servers within its domains to ensure the password policy established complies with the specific guidelines

**Management's Response and Corrective Action Plan**

*We have developed and adopted a password policy that is in line with the GOT recommendations. Our lockout duration standard has been changed to your recommendation of "Forever." The lockout reset has been changed to 90 minutes. However, we feel if we go with the GOT standard of 1440 minutes for the lockout reset, this would put an undue burden on our support staff and the helpdesks.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-3: The Cabinet For Families And Children Should Ensure All User Accounts On Its Agency Servers Are Necessary**

During security vulnerability reviews of the CFC systems, the auditor discovered several instances where it appears unnecessary accounts were established either on servers or for applications.

First, we used two (2) scanning tools to review all Primary Domain Control (PDC) servers, SQL servers, New Technology (NT) servers and a sample of Backup Domain Control (BDC) servers within three (3) CFC domains. NetBIOS account information was received from 21 servers, including a PDC server, seven (7) BDC servers, nine (9) SQL servers, and four (4) NT servers. To determine possible unnecessary accounts, the auditor used the criteria that the account password was over the 31-day maximum age and had been used to log onto the system at some point. The PDC had 17 accounts that met this criterion. While examining other CFC servers, we found a guest account on one (1) server that met our criterion for potentially unnecessary accounts. Further, the majority of servers examined had several accounts that had never logged into the system or were listed as disabled.

Second, we attempted a remote logon to known applications using various combinations of default logon passwords. A review of all machines controlled by CFC revealed 19 machines with port 21 open. We were able to create a File Transfer Protocol (FTP) session on six (6) machines, or 31.6 percent, using the anonymous or guest logins.

Intruders often use inactive accounts to break into a network. If a user account has not been used for some time, the account should be disabled until it is needed. This minimizes the possibility that an unauthorized user will use the account. If an account is not going to be reinstated, then it should be deleted. Further, default administrator, guest, and anonymous accounts in operating systems and applications are some of the first accounts that an intruder will attempt to use. They should be assigned strong passwords or, where possible, renamed or removed immediately after installation.

#### **Recommendation**

We recommend that CFC review accounts on all servers to determine which accounts have not changed their password within the last 31 days. These accounts should be evaluated to determine if they are still valid accounts that are required for a business-related purpose. If not, the accounts should be disabled or deleted depending on the necessity of reinstatement of the account. Further, CFC should ensure that all machines with FTP services running on them restrict access to default, anonymous, or guest logons.

**FINANCIAL STATEMENT FINDINGS****Other Matters Relating to Internal Controls and/or Compliance****FINDING: 02-CFC-3: The Cabinet For Families And Children Should Ensure All User Accounts On Its Agency Servers Are Necessary (Continued)**

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**Management's Response and Corrective Action Plan**

*All active accounts have been required to reset their passwords. We developed a more stringent password policy requiring that all passwords be reset after thirty-one (31) days. Periodic auditing for password strength is occurring. Some passwords were cracked and instructions were provided to staff to help them develop more stringent passwords. During a recent password audit a small grouping of passwords were identified as inactive. Work is going to be done to remove all inactive accounts.*

*Guest accounts on all workstations and servers are to be disabled. This should be completed by the end of the first quarter of 2003. Default administrator account will be disabled and we will set a second account with a strong password that will meet the new cabinet policy.*

*The FTP services have been disabled on all but one (1) server. All precautions have been taken to ensure the security of this server.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-4: The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized**

For FY 02, CFC did not restrict critical information divulged by their network servers. During the review of CFC local area network (LAN) security for FY 02, we discovered several instances where machines within the LAN provided information to anonymous users that could potentially help an intruder with developing details for an attack.

First, using standard scanning tools we reviewed the server names and other remarks for all servers located within three (3) CFC domains. We noted 267 machines with remarks. The majority of these remarks are the user names of each of the machines; however, there are several that might catch an intruder's interest. We also noted that the naming convention of servers was not sufficiently ambiguous to disguise the function of some of the servers.

Second, the auditor used security vulnerability assessment tools twice during the fiscal year on 62 servers within the three (3) CFC domains to determine if they would return information on Local Security Authority (LSA), Password Policies, or Valid User, Group, or Share Lists. Our examination revealed that excessive information was provided as shown in the following table.

Type of Information	Number of machines	Percentage of 44 machines
LSA	41	93.1%
Password Policies	41	93.1%
Trusted Domains	41	93.1%

An agency's domain information that is accessible to the world at large through inquiry tools should be kept at a minimum. Agencies should ensure that information such as location, accounts associated with the server, data residing on the server, and the server's role is not divulged or is stated in the most minimal of terms. To accomplish this, an agency can set devices to not respond to certain types of inquiries, can use naming conventions that obscure the purpose of servers, and can provide no comments on server activity.

#### **Recommendation**

We recommend that CFC restrict the information that is being provided by their LAN machines to anonymous users. First, the naming convention for servers should be altered to make them more ambiguous and any unnecessary comments associated with the servers should be removed. Second, boundaries should be placed on what types of responses servers provide based on certain inquiries.

**FINANCIAL STATEMENT FINDINGS**

**Other Matters Relating to Internal Controls and/or Compliance**

**FINDING: 02-CFC-4: The Cabinet For Families And Children Should Ensure That Security Information Leakage Concerning Agency Devices Is Minimized (Continued)**

**Management's Response and Corrective Action Plan**

*All remarks have been removed. The naming convention for servers has been developed. All new servers are being rolled out with the new naming conventions. We are currently working on the project plan to rename our existing servers.*

*In your finding, you recommended setting devices to not respond to certain types of inquiries. We will be making the appropriate registry settings to prohibit the detailed information mentioned from being obtained.*

*We are currently working on obscuring the naming. Each of these identified areas will be addressed in the current server-renaming project. This project will begin January 2003.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-5: The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose**

During the security vulnerability assessments for servers controlled by CFC, the auditor determined that there were several servers with ports open that may not have a specific business-related purpose. Due to the large number of issues, the auditor has grouped the findings below by port number and application.

##### **Port 7 – Echo and Port 19 - Chargen**

Within one (1) CFC domain, the auditor found 14 servers that had both ports 7 and 19 open. These ports are not necessary for the function of the server and could potentially be used to perpetuate a denial of service attack.

##### **Port 13 – Daytime and Port 17 – Quote of the Day**

Within one (1) CFC domain, the auditor found 13 servers with both ports 13 and 17 open. These ports usually do not have a business-related purpose and can be abused by potential unauthorized users.

##### **Port 53 – Domain Name Server (DNS)**

The auditor found one (1) server that was running the DNS service. This service resolves the domain names for users and must be properly and consistently managed and coordinated with GOT services.

##### **Port 6667 – Internet Relay Chat (IRC)**

Within one (1) CFC domain, the auditor found six (6) servers with the IRC service running. Unauthorized users for trojan attacks and downloading illegal files can use this port.

##### **Port 8080 – World Wide Web (WWW) – Proxy**

One (1) machine was found with port 8080 open, however, we could not access the related website through FTP or Hypertext Transfer Protocol. The necessity of this port could not be determined.

The existence of open ports is an invitation for intruders to enter your system. To minimize the risk of unauthorized access to a machine, only necessary, business-related ports should be open. Further, the application residing at these ports should be secured to the extent possible.

**FINANCIAL STATEMENT FINDINGS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING: 02-CFC-5: The Cabinet For Families And Children Should Ensure That All Open Ports On Agency Machines Have A Business-Related Purpose (Continued)****Recommendation**

We recommend that CFC perform a review of all open ports on the servers discussed in this comment. If there is not a specific business-related purpose requiring a port to be open, then that port should be closed. Further, we recommend that CFC begin a periodic review of open ports on all machines owned by the agency to ensure necessity.

**Management's Response and Corrective Action Plan**

*We are actively scanning for open ports and shutting down inappropriate ones or are taking the steps necessary to ensure they are secure.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-6: The Cabinet For Families And Children Should Remove The Simple Network Management Protocol Service Or Change The Default Community String**

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During the security vulnerability testing of CFC, the auditor found nine (9) servers, or 20.5 percent of the 44 servers examined, that had the Simple Network Management Protocol (SNMP) service available that would allow an anonymous user to logon with the community name “public.” The “public” community name is the default public account for this service. The use of the “public” community name allows too much information to be provided to any anonymous user. The auditor was given information about the system, such as listening ports, open sessions, active user accounts, and shares that exist.

Information provided by the SNMP service concerning a machine’s functions could be useful to an intruder in developing an attack. Access to the world at large through default logons should not be allowed. To accomplish this, the agency should change the SNMP service default community names.

#### **Recommendation**

We recommend that CFC either disconnect the SNMP service or change the “public” community name to a more sophisticated name on all servers. Further, any new machines should be checked for the SNMP service to ensure the “public” community name has been changed.

#### **Management’s Response and Corrective Action Plan**

*We do not use the SNMP service. We are currently turning it off, if found enabled.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING 02-CFC-7: The Cabinet For Families and Children Should Ensure Computer Equipment Is Properly Inventoried And Insured**

During the FY 02 audit, we noted that CFC did not have adequate insurance coverage on file for computer equipment. The auditor pulled CFC's fixed asset summary report, which indicated that the agency had approximately \$24,092,911.26 worth of hardware as of July 1, 2002. The auditor obtained CFC's Master Computer Declaration for the time period July 1, 2002 through June 30, 2003 from the Department of Insurance (DOI), which only showed \$6,209,700 worth of insurance coverage provided for computer hardware. Through discussions with DOI, it was determined that approximately \$19 million worth of hardware coverage did not carry forward into FY 03.

A new computer declaration was given to the auditor on December 10, 2002, which reflects \$23,363,820 worth of insurance coverage on fixed assets for FY 03. This coverage appears reasonable compared with the current computer hardware inventory maintained by CFC.

CFC monitors inventories using two (2) different methods. First, equipment is tracked via Microsoft Excel. Second, all computer hardware, software and peripherals are registered, tagged, and documented in the web-based inventory tracking system. While both of these methods are acceptable for tracking the agency's assets, neither is complete.

Good management practices minimize risk through planning. It is critical to ensure that CFC's computers and their peripherals are properly valued. Maintaining current records of all computer purchases and dispositions and keeping an updated inventory listing will help management ensure sufficient insurance is obtained. Further, properly inventoried and insured equipment helps ensure that claims from a loss are addressed quickly and accurately.

#### **Recommendation**

We recommend that CFC ensure that its inventory tracking systems include all existing, newly purchased, upgraded, or phased-out inventories. Management should communicate frequently with DOI to ensure that coverage obtained is adequate for current inventory.

#### **Management's Response and Corrective Action Plan**

*We realize the importance of properly maintaining an inventory tracking system. Our goal is to establish a single comprehensive system. The web-based application is relatively new and is continually being updated to gather information on all of our equipment. We will make every effort to ensure that all equipment and software are identified in a uniform system for accountability. We will meet with the CFC insurance contact and the Department of Insurance contact to discuss an ongoing method to reconcile the equipment insurance needs for this cabinet.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-8: The Cabinet For Families and Children Should Improve Disaster Recovery Procedures**

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During the previous audit, a verbal comment was issued to ensure that updates were made to CFC contingency plans for the following systems:

- Kentucky Child Care Management System (KCCMS),
- Kentucky Automated Management Enforcement System (KAMES),
- Kentucky Automated Support Enforcement System (KASES), and
- System Tracking For Employability Programs (STEP).

CFC participated in the GOT disaster recovery test May 11-13, 2001, in which both KAMES and KASES were tested. However, we discovered that CFC did not update any of the contingency plans listed above. Further, there is not a recovery plan in place for The Worker's Information SysTEm (TWIST). While the cabinet does have an "agency-wide" contingency plan that would cover all systems in the event of a disaster, the only updates made during FY 02 to this plan were to the emergency contacts.

Each of the available system contingency plans outline procedures that should be followed in the event of a disaster. They also set out the responsibilities for key personnel expected to maintain the plan. Since these contingency plans have not been updated or responsibilities re-assigned as personnel changes are made, we do not believe the contents of these plans are adequate to ensure the department's data and programs are recoverable in the event of a disaster.

Good management practices minimize risk through planning. The goal of a business recovery plan is to improve preparedness at minimal cost using available resources. Not having a complete and up-to-date business recovery plan increases the possibility of loss due to excessive recovery time and costs, and disruption of processing capabilities in the event of a disaster or significant business interruption.

#### **Recommendation**

We recommend that CFC take the following steps to improve the disaster recovery function:

- All system contingency plans, specifically KAMES, KASES, KCCMS, and STEP, should be updated annually, and especially after testing occurs, to reflect emergency contacts, alternative processing sites, backup procedures, etc. In addition, these plans should be distributed and training provided to key personnel involved in disaster recovery procedures. If these plans are not updated in the future, it is recommended that the "agency-wide" contingency plan be updated so that all CFC systems recovery procedures are specifically covered in the case of a disaster.

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-8: The Cabinet For Families and Children Should Improve Disaster Recovery Procedures (Continued)**

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##### **Recommendation (Continued)**

- A contingency plan should be developed and approved for TWIST. This plan should also be distributed and training provided to key personnel involved in the disaster recovery process.

##### **Management's Response and Corrective Action Plan**

*A Disaster Recovery Plan is currently in development for TWIST.*

*We have discussed the contingency plan issues and are in total agreement with you. We are going to review the plans and make staff assignments and responsibilities toward the creation of a plan for TWIST as well as maintaining and updating the other current contingency plans. We will also ensure that all appropriate cabinet personnel have copies and are familiar with these plans.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING: 02-CFC-9: The Cabinet For Families And Children Should Strengthen The Logical Security Procedures Over The System Tracking For Employability Programs**

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During our audit of logical access security for STEP, we found CFC did not consistently follow procedures for granting access. Of the 51 access forms tested, we found exceptions with supporting documentation for 11 users. First, there were seven (7) users for which no documentation was maintained on file. Second, there were four (4) users that were missing at least one (1) signature required to grant system access. Further, we noted four (4) additional userids in our sample whose Resource Access Control Facility (RACF) userids had been deleted from the mainframe system; however, the userid connection to the STEP application was not removed.

At the time of testing, the security administrator for STEP stated that he planned to request a listing of all users that have not accessed the application within one (1) year and purge those userids.

Consistent application of established security policies and procedures provides continuity for policy implementation, and sets the tone of management concern for a strong system to secure assets and resources. Further, documentation should be available to verify proper authorization of the system access granted.

#### **Recommendation**

We recommend that CFC complete a review of current users within STEP to ensure that all unnecessary userids are removed from the application. In addition, we recommend that CFC ensure that all STEP users are made aware of the new system access procedures documented in the CFC System Security Access Procedures Manual.

#### **Management's Response and Corrective Action Plan**

*We will meet with security staff to discuss and monitor progress on the removal of all unnecessary userids. We will also get with Department for Community Based Services staff and provide copies of the system access procedures for dissemination to all STEP users.*

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING 02-CFC-10: The Cabinet For Families and Children Should Ensure System Access Request Forms Are Readily Available**

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\ During the examination of logical access security over TWIST for FY 02, we found CFC security access forms required to grant system access were not readily available.

As stated in the CFC System Security Access Procedures manual, to gain access to TWIST, users must complete the Request For RACF Mainframe Clearance (CFC-219A), the Request For KAMES UserId (CFC-219B), and the TWIST Staff Information document. Since TWIST security procedures are decentralized, the auditor requested all access forms for 45 TWIST users with update access to make sure proper authorization was on file to grant access and that logical security procedures were being followed. Although sufficient time was allowed for the regional administrators to respond, the auditor was only provided with 19 CFC-219A forms, one (1) of which did not have proper authorization.

For general security to be effective, system access forms should be readily available to agency administrators as well as management to ensure users are properly authorized to access the system. Without knowing if users actually require access to TWIST, there is a risk of unauthorized modification, destruction of assets, and interruption of services.

#### **Recommendation**

We recommend that CFC make all security administrators aware of the logical security procedures documented in the System Security Access Procedures manual. Security administrators for TWIST should be provided instructions to review current users accessing TWIST that they are responsible for and ensure they have the following required forms on file for those users as well as the necessary approving signatures:

- Employee Confidentiality/Security Agreement (CFC-219),
- Request For RACF Mainframe Clearance (CFC-219A),
- Request For KAMES Userid (CFC-219B), and
- TWIST Staff Information document.

## **FINANCIAL STATEMENT FINDINGS**

### **Other Matters Relating to Internal Controls and/or Compliance**

#### **FINDING 02-CFC-10: The Cabinet For Families and Children Should Ensure System Access Request Forms Are Readily Available (Continued)**

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##### **Management's Response and Corrective**

*There is a misunderstanding regarding the 45 TWIST users having update access. The list of these users was forwarded to the regional staff. We were told that only nineteen (19) of the 45 users had "update" access to TWIST. That is why you only received nineteen (19) CFC 219s.*

*The "CFC System Security Access Procedures" manual has been provided to the security administrators. We will follow-up with these staff ensuring that each understands and is following these procedures.*

*We will also follow your recommendation for TWIST security administrators. We will work with the Department of Community Based Services in providing these administrators instructions on reviewing the current TWIST users and making sure all appropriate forms are maintained on each.*

**FINANCIAL STATEMENT FINDINGS****Other Matters Relating to Internal Controls and/or Compliance****FINDING 02-CFC-11: The Cabinet For Families and Children Should Correctly Code Expenditures To Area Development Districts**

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During the previous audit, we noted that CFC incorrectly coded some expenditures in MARS. During our audit work for FY 02 audit, we noted that this problem has not been corrected. CFC coded expenditures to Area Development Districts (ADDs) in MARS as E415, which is Program Administration Costs–1099 Reportable. However, the ADDs are actually subrecipients and quasi-governmental entities that do not file tax returns. This condition still exists.

When CFC does not correctly code expenditures, this overstates the amounts being sent to subrecipients by federal program in the notes to the Schedule of Expenditures of Federal Awards.

OMB Circular A-133 Subpart C .300(d) states the auditee should “[p]repare appropriate financial statements, including the schedule of expenditure of Federal awards in accordance with section .310.” Section .310 states that the schedule of expenditures of federal awards should contain, at a minimum (5) “[t]o the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.”

OMB Circular A-133 Subpart D .400(d) states that a pass-through entity should for Federal awards it makes:

- (2) “[a]dvise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
- (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- (4) Ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipient’s fiscal year have met the audit requirements of this part for that fiscal year.”

Please note that these requirements are also stated in the APA instructions that are given to CFC each year.

## **FINANCIAL STATEMENT FINDINGS**

### ***Other Matters Relating to Internal Controls and/or Compliance***

#### **FINDING 02-CFC-11: The Cabinet For Families and Children Should Correctly Code Expenditures To Area Development Districts (Continued)**

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##### **Recommendation**

We recommend that CFC review all expenditure coding in MARS to ensure that expenditures are coded correctly.

##### **Management's Response and Corrective Action Plan**

*We agree that the Area Development District (ADDs) were improperly coded to object E415. The Contracts Management Branch was aware of the coding problem and beginning with the state fiscal year 03 all associated contracts are being charged to E422.*

## **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance***

#### **FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed**

Federal Program: CFDA 17.253 – Welfare-to-Work Grants to States and Localities  
CFDA 93.563 – Child Support Enforcement  
CFDA 93.575 – Child Care and Development Block Grant

Federal Agency: U.S. Department of Labor  
U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Subrecipient Monitoring

Amount of Questioned Costs: None

CFC contracts with local not-for-profit organizations, community action agencies, and county attorneys to provide services to needy families. Program deficiencies were noted regarding Welfare-to-Work (WtW), Child Support Enforcement (CSE), and Child Care and Development Block Grant (CCDBG). As subrecipients of federal awards, organizations that expend in excess of \$300,000 are required to have a single, or program-specific, audit in accordance with OMB Circular A-133.

Audits of subrecipients must be submitted to CFC for review within the earlier of 30 days after receipt of the auditor's report(s) or nine (9) months after the end of the audit period. We requested monitoring reports, subrecipient contracts, and audit reports to test CFC's compliance with OMB Circular A-133 provisions. We noted three (3) subrecipients failed to submit an audit report to CFC for FY 01. Desk reviews for FY 01 audits have not been performed for 10 subrecipients. During the contract monitoring testing, one (1) subrecipient was missed in the monitoring process for FY 02.

CFC has not taken the appropriate steps to correct similar problems that were noted during prior years. Deficiencies noted during our testing follow:

<b>CFDA #</b>	<b>Subrecipient</b>	<b>A-133 Audit Deficiency</b>
17.253 WtW	Barren River Area Development District (ADD)	Desk review for 2001 audit not performed.
	Lake Cumberland ADD	Desk review for 2001 audit not performed.
	Bluegrass ADD	Desk review for 2001 audit not performed.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

*Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*

**FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)**

<b>CFDA #</b>	<b>Subrecipient</b>	<b>A-133 Audit Deficiency</b>
93.563 CSE	Big Sandy ADD	Audit for 2001 was not submitted.
	Institute of Family Centered Services	Audit for 2001 was not submitted.
	Northern Kentucky ADD	Audit for 2001 was not submitted.
	University of Louisville Research Foundation	Desk review for 2001 audit not performed.
	Kentucky Community and Technical College System	Desk review for 2001 audit not performed.
	Green River ADD	Desk review for 2001 audit not performed.
	University of Kentucky Research Foundation	Desk review for 2001 audit not performed.
	Jefferson County Community Development	Desk review for 2001 audit not performed.
93.575 CCDBG	Eastern Kentucky Child Care Coalition	Desk review for 2001 audit not performed.
	Kentucky Association of Child Care Resource and Referral Agencies	Desk review for 2001 audit not performed.

<b>CFDA #</b>	<b>Subrecipient</b>	<b>Contract Monitoring Deficiency</b>
93.563 CSE	F.M. Blake	Monitoring was not performed for subrecipient.

CFC cannot be assured that subrecipients are expending federal awards for their intended purpose and complying with the requirements of OMB Circular A-133 without having proper monitoring procedures in place.

OMB Circular A-133, Subpart B states: “[n]on-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part.”

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance***

CFC has the following responsibilities under OMB Circular A-133, Subpart D (d):

- (1) Advise subrecipients of requirements imposed on them by federal laws, regulations, and provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

## **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance***

#### **FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)**

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- (2) Ensure required audits are performed and require subrecipients to take prompt corrective action on any audit findings; and,
- (3) Evaluate the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

The Commonwealth of Kentucky Master Agreement, which is the contract between CFC and CHS, Office of Inspector General (OIG), states that OIG will: 1) Perform reviews and audits to ensure financial compliance with state and federal laws and regulations and evaluate external audits performed for CFC, and perform other related services. 2) Complete desk reviews of A-133 audits within six (6) months of receipt. 3) Meet the standard 100% of the time.

OMB Circular A-133 §\_\_\_\_.225 states:

[n]o audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;
- (c) Suspending Federal awards until the audit is conducted; or
- (d) Terminating the Federal award.

#### **Recommendation**

We again recommend a policies and procedures manual be developed to make the subrecipient monitoring process more effective and easier to follow. It would also ensure compliance with OMB Circular A-133 subrecipient monitoring compliance requirements. In particular, OMB Circular A-133 requires the pass-through entity (CFC) to receive audit reports from subrecipients required to have an audit in accordance with OMB Circular A-133 and issue "timely" management decisions on audit and monitoring findings. Also, it requires subrecipients to take "timely" corrective action on deficiencies identified in audits and subrecipient monitoring. OMB Circular A-133 does not specify what "timely" means; however, a CFC subrecipient monitoring policies and procedures manual could define that to ensure compliance and consistency.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed (Continued)**

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**Recommendation (Continued)**

The written policies and procedures should contain, at a minimum, the following:

- 1) Communication of federal award requirements to the subrecipients.
- 2) The responsibilities for monitoring and tracking subrecipients in a timely manner, with a definition of what “timely” means. An example would be to have deadlines for the response on each correspondence sent to the subrecipient and/or independent auditor. After a maximum number of sent correspondence, such as three (3), the file would be forwarded to general counsel for pursuit of noncompliance items.
- 3) Specific monitoring processes. An example would be to better use the CFC Audit Log for OIG, perhaps through weekly updates.
- 4) Methodology for resolving the findings of subrecipient noncompliance or weaknesses in internal control and a timeline for corrective action.
- 5) Requirements for processing subrecipient audits, including appropriate adjustment of pass-through entity’s accounts, such as through the sanctions mentioned above.
- 6) Require CHS/OIG to be compliant with the six (6) months turnover of desk reviews as required by the CFC contract.

**Management’s Response and Corrective Action Plan**

*Beginning in January 2002, the Contracts Management Branch assigned a staff person to devote a portion of her time to managing the audits submitted to the CFC. As time permitted, this individual developed a log to track letters of engagement, management letters, and audits; sent reminder letters to vendors; and drafted a shell for the proposed policy and procedure manual. It became apparent that the job required more than a portion of one employee’s time. Therefore, CFC recently employed a staff person whose time is devoted to managing the audit review process. This individual, a Certified Public Accountant (CPA), will fully develop a policy and procedure manual and manage all aspects of receiving and processing audits.*

*The policy and procedures manual will address, at a minimum, the six items listed in the auditor’s correspondence. The contract language concerning audits is being reviewed and will be strengthened in the FY04 contracts. Currently, letters are sent to vendors reminding them that the contract audit requirements specify their submitting letters of engagement by March 31, 2003 and audit reports and Management Letters no later than March 31, 2004.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A  
Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly  
Performed (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

*In cases where CFC is not the cognizant agency, CFC has relied on the cognizant agency to review the audits and inform CFC of problems. This practice will be reviewed and revised to provide more direct oversight of the subrecipients' activities.*

*Additionally, the Contracts Monitoring Branch will ensure that non-Federal entities that expend \$300,000 or more in federal funds in a year are listed for review.*

*The Contracts Monitoring Branch was short staffed in 2002. The Branch has had four (4) of its fifteen (15) full – time monitoring positions vacated and not replaced in the past year. In addition, several of the eleven (11) remaining monitors the Branch does have are new hires who have had to be trained and have been unable to take on full monitoring contract loads this past year. Therefore, while the F. M. Blake Contract Monitoring had been assigned and attempts had been made to schedule it, the Branch did get behind and did not perform the FY 02 Monitoring by December 31, 2002. It is our understanding that this was the sole finding of deficiency for FY 02 that relates to this branch.*

- 1. The FY 2002 Contract Monitoring of F. M. Blake is scheduled for February 26, 2003 and will be conducted by interim contract monitors.*
- 2. In December 2002, the Contracts Monitoring Branch began work on a Policy and Procedures Manual. The manual will include administrative and procedural matters, including specific monitoring processes. All staff are currently taking part in working on the manual. In the interim, the following corrective measures have also been taken:*
  - a. The Branch has developed a series of form letters to be used by all monitors that cover such things as setting appointments, sending the monitoring report, corrective action plans, etc. The letters do advise the vendors of deadlines and consequences of non-responsiveness, etc. For example, the letter requesting the third request for corrective action plan will now be sent by the Contracts Monitoring Branch Manager, with copies advising the Contracts Management Branch Manager, the Division of Program Integrity Director, and the affected Program Division Manager.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-12: The Cabinet For Families And Children Should Develop A  
Policies And Procedures Manual To Ensure Subrecipient Monitoring Is Properly  
Performed (Continued)**

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**Management's Response and Corrective Action Plan (Continued)**

- b. There have been some problems with getting appointments set for certain contract monitoring. In order to try to avoid that problem in the future, the Contracts Monitoring Branch has developed form letters to handle setting appointments.*
- c. The CFC Contract Monitoring Tracking Log has been revised.*
- d. Contract Monitoring assignments are generally made twice a year (in January and June). In the past, contract monitoring assignments just needed to be completed by the end of either December or June. In an effort to ensure that all Contract Monitoring assignments get completed on time, the policy was changed in December 2002. The Branch is trying out a new system where staff is expected to complete half of their contract monitoring assignments by the midpoint of their assignment period.*
- e. The Contracts Monitoring Branch is trying out a revised fiscal monitoring tool which collects, where applicable, copies of vendors' audit reports.*
- f. A Checklist of documents has been prepared to assist the staff assistant so she will know what needs to be included in every monitoring report folder that is kept in the central office.*
- g. A new policy has been put in place requiring monitoring reports to be reviewed prior to being sent out to vendors.*
- h. The branch will be implementing a new policy regarding how final monitoring reports and required letters must be put on the Contracts Monitoring Branch computer system.*
- i. The Contracts Monitoring Branch Manager is currently taking part in providing Cabinet wide training led by the Contracts Management Branch to educate the CFC Division Directors and their representatives to better understand the process of requesting, seeking approval of and monitoring CFC contracts.*
- j. The Contracts Monitoring Branch has prepared a Power Point Training Presentation to educate CFC Program staff on how the Branch prepares Contract monitoring tools and how the Branch may be able to assist CFC Program staff to monitor vendor contractual weaknesses.*

## **FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

### ***Reportable Conditions Relating To Internal Controls and/or Reportable Instances of Noncompliance***

#### **FINDING 02-CFC-14: The Cabinet For Families And Children Should Monitor Cases Closely So An Ineligible Recipient Does Not Receive Additional Months Of Benefits**

State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed and Eligibility

Amount of Questioned Costs: \$2,616

The Federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWOA) of 1996 (Public Law 104-193, as amended) mandated a maximum lifetime limit on welfare benefits for 60 months, with the first discontinuances beginning October 2001, which is within FY 02. Some households that were scheduled to have their benefits discontinued may have received special hardship exemptions and may continue to receive all or a portion of their Temporary Assistance for Needy Families (TANF) cash assistance for as long as the hardship lasts.

We tested a sample of 25 TANF recipients that were approaching the 60-month lifetime limit on receiving TANF benefits to ensure benefits were discontinued at the end of the 60-month period, or that reasons for extending funding were valid. We found three (3) instances where clients received over 60 months of benefits they were not eligible to receive:

<b>Case number</b>	<b>Number of ineligible months</b>	<b>Monthly benefit amount</b>	<b>Ineligible amount client received</b>
1	5	\$ 328	\$ 1,640
2	1	\$ 210	\$ 210
3	2	\$ 383	\$ 766
		<b>Total</b>	<b>\$ 2,616</b>

When CFC fails to discontinue benefits to TANF recipients that have reached the 60-month lifetime limit, clients receive additional money that they are not entitled to, which may prevent eligible recipients from receiving benefits due to the limited funds available.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-14: The Cabinet For Families And Children Should Monitor Cases Closely So An Ineligible Recipient Does Not Receive Additional Months Of Benefits (Continued)**

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The OMB A-133 Compliance Supplement for CFDA 93.558 Part III. E.1.b. (1) states, “Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance.”

PRWOA Section 408 (a) (7) (A) states:

NO ASSISTANCE FOR MORE THAN 5 YEARS – IN GENERAL – A State to which a grant is made under section 403 shall not use any part of the grant to provide assistance to a family that includes an adult who has received assistance under any State program funded under this part attributable to funds provided by the Federal Government, for 60 months (whether or not consecutive) after the date the State program funded under this part commences . . .

TANF Final Rule Executive Summary states, “In general, States may not use Federal Funds to provide assistance to a family if it includes an adult or minor head-of-household or the spouse of a head-of-household who has received assistance for a cumulative total of more than 60 months.”

Kentucky TANF Title IV-A State Plan – July 2001 states, “Five year lifetime limit for families with an adult.”

**Recommendation**

We recommend CFC remind staff of the importance of closely monitoring each case so that an ineligible recipient does not receive additional months of benefits to which they are not entitled.

We discovered several recipient files that were very well documented and benefits were properly discontinued; however, since other files were deficient, we recommend staff provide adequate documentation in the recipient files and observe all policy and procedures regarding this issue.

Any funds discovered that were issued in error should be recouped, if at all possible. CFC should reimburse the federal government for the questioned costs noted.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-14: The Cabinet For Families And Children Should Monitor Cases Closely So An Ineligible Recipient Does Not Receive Additional Months Of Benefits (Continued)**

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**Management's Response and Corrective Action Plan**

*60 month discontinuance and/or 20% hardship was discussed at our last staff meeting on February 6, 2003. We are now monitoring the 36-month and 60-month extension reports. The supervisor for DCBS [Department of Community Based Services] is now monitoring all 60-month discontinuances for DCBS, Community Action Council and the Family Care Center. Claims will be processed for over payments noted on this report.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-15: The Cabinet For Families And Children Should Maintain  
And Produce Records to Adequately Support Expenditures**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.558 – Temporary Assistance for Needy Families

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance Area: Activities Allowed/Unallowed and Eligibility

Amount of Questioned Costs: Not Applicable

We tested a sample of 45 payments to participants in the TANF program. CFC failed to produce records to support expenditures and follow the PA-32 Procedural Instructions, which are a part of the Community Based Services Forms Manual, for some of the sampled items. The instructions include detailed descriptions of how PA-32s should be completed by caseworkers.

We noted the following weaknesses:

- Recipient files were missing for two (2) of 45 cases tested,
- PA-32s were missing from files in seven (7) cases,
- Incomplete PA-32s in one (1) case (Unused Lines not X'd out on form), and
- Employment retention payments not supported by receipt or invoice in two (2) cases.

CFC has not taken adequate measures to correct this problem, as similar problems were noted in the FY 01 audit. However, there has been significant improvement, and CFC should be commended for its efforts toward correction of this problem.

CFC cannot be assured that all payments for both recurring and nonrecurring expenses were valid. Also, if PA-32s are not completed according to instructions, the potential for fraud and misuse of funds exists.

Federal Regulations at 45 CFR 92.20(a)(2), state, “[f]iscal control and accounting procedures of the State . . . must be sufficient to . . . permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

Federal Regulations at 45 CFR 92.42(b)(1), also state, “. . . records must be retained for three years from the starting date specified in paragraph C.”

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Reportable Conditions Relating To Internal Controls and/or  
Reportable Instances of Noncompliance*****FINDING 02-CFC-15: The Cabinet For Families And Children Should Maintain  
And Produce Records to Adequately Support Expenditures (Continued)**

CFC DCBS Operation Manual Transmittal Letter number 239, Volume III, 3800-3899 Employment Retention Services, Section 3825 DETERMINING EMPLOYMENT RETENTION ASSISTANCE, (ERA) ELIGIBILITY, states, “To receive ERA, a family must request payment and return verification of a short term need that will allow for continued employment and they must have sufficient benefits remaining.”

Good internal controls dictate that procedures be followed to ensure that payments are made only for approved and allowable goods and services.

**Recommendation**

We recommend CFC remind staff of the importance for maintaining participant case files. Records should be produced and maintained to adequately support expenditures. The PA-32 forms should be completed according to instructions in all cases.

**Management’s Response and Corrective Action Plan**

- *PA-32’s are now logged in by clerical staff that opens mail and then given to the case manager for payment. The local office had already identified this as a problem and corrective action had already been initiated.*
- *Training has been provided to staff on the use of PA-32’s for car repairs and insurance and stressed that both forms are required even when payments are made to the client. Reminded staff to XXX through lines on PA-32 that are not used.*
- *ERA policy was reviewed with the importance of receipts stressed in documenting how payments were utilized.*

*Local office has been having some issues with filing, which has resulted in files being placed in file cabinets incorrectly and they feel that the filing has improved and will continue to work toward finding files that have been misfiled.*

*We will have mini-training for DCBS, Community Action Council and Family Care Center staff on completion of PA32’s, maintaining files and transferring of files. ERA is no longer a factor after 3/31/03 however; supervisor will closely monitor all ERA payments and stress to all staff the importance of filing actions in the case records.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 02-CFC-13: The Cabinet For Families And Children Should Maintain Medical Support Information In The Kentucky Automated Support And Enforcement System**

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State Agency: Cabinet for Families and Children

Federal Program: CFDA 93.563–Child Support Enforcement

Federal Agency: U.S. Department of Health and Human Services

Pass-Through Agency: Not Applicable

Compliance: Eligibility and Special Tests and Provisions

Amount of Questioned Costs: Not Applicable

During Eligibility testing, we found that 12 of the 27 child support cases reviewed were incomplete; specifically, the following deficiencies were noted:

The 12 cases did not provide any documentation in Jefferson County’s Child Support system or KASES system to indicate if medical support information was established, gathered, or followed up on when it was ordered in a court order. Also, follow up was not performed on these cases to determine if health insurance was reasonably available.

Newly established child support files indicated that procedures had been implemented to correct the weakness, but not all files have been corrected. CFC, Division of Child Support, has not taken sufficient steps to correct problems in cases established in prior years.

The Division of Child Support is unable to fulfill its objectives when a caseworker fails to properly process and follow up on child support cases. The agency’s objectives are to enforce support obligations owed by non-custodial parents, locate absent parents, and obtain child and spousal support. When a caseworker does not process and properly follow up on a case, they are not meeting the above objectives; therefore, the caseworkers are not providing the proper service to ensure that the child’s needs are addressed.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 02-CFC-13: The Cabinet For Families And Children Should Maintain Medical Support Information In The Kentucky Automated Support And Enforcement System (Continued)**

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CFR Title 45, Chapter III, Section 303.31 (b) states:

[the IV-D agency shall:] (1) Unless the custodial parent and child(ren) have satisfactory health insurance other than Medicaid, petition the court or administrative authority to include health insurance that is available to the noncustodial parent at reasonable cost in new or modified court or administrative orders for support. . . .

(5) Provide the custodial parent with information pertaining to the health insurance policy, which has been secured for the dependent child (ren) pursuant to an order obtained under this section.

(6) Inform the Medicaid agency when a new or modified court or administrative order for child support includes medical support and provide the information . . . to the Medicaid agency when the information is available.

(7) If health insurance is available to the noncustodial parent at a reasonable cost and has not been obtained at the time the order is entered, take steps to enforce the health insurance coverage required by the support order and provide the Medicaid agency with the information . . . .

**Recommendation**

We recommend that the Division of Child Support provide more training to their caseworkers to ensure that all efforts are made to ensure that medical support information is entered into the system correctly. The agency needs to ensure that all follow up and processing of the cases is adequately documented and that all aspects of the cases are addressed.

All federal regulations and procedures should be followed to ensure compliance. Caseworkers need to make sure that custodial parents have satisfactory health insurance other than Medicaid and petition the court or administrative authority for custodial parent who do not have satisfactory health insurance. The caseworker also needs to verify that absent parents obtain health insurance coverage and document any reason for not obtaining coverage. They should also inform both the custodial parent and Medicaid when the absent parent has health insurance or CFC obtains health insurance. It would also be helpful if the custodial parents health insurance information is entered into the system to verify that this information is valid.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 02-CFC-13: The Cabinet For Families And Children Should Maintain Medical Support Information In The Kentucky Automated Support And Enforcement System (Continued)**

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**Management's Response and Corrective Action Plan**

*We completed a review in ten (10) of the twelve cases (12) identified as incomplete. Two (2) cases were not reviewed, as the participant identification number was provided, and the participants were associated with several cases. We disagree with the findings in four (4) cases of the ten (10) cases reviewed. Following is a summary that explains the disagreement with the findings in the four (4) cases:*

*In case A, Kentucky received a request from another state to modify the obligation. The order record does not indicate medical support as ordered, and the system does not indicate the other state requested modification for medical support. This is a non-public assistance case. Since the other state did not request a modification to establish medical support and the case was not identified as a Medicaid case by the other state, the requirements for establishing and enforcing medical support did not apply. Also, the case had child support collections by wage assignment in the last two (2) quarters of the fiscal year.*

*In case B, a Medicaid reimbursement account was set up, and the non-custodial parent was ordered to pay \$76 per month on a balance of \$7213. The order record shows the non-custodial parent is ordered to obtain medical insurance. No payments were received during the fiscal year. On May 2, 2002, a delinquency letter and a letter requesting medical insurance cards was sent to the non-custodial parent. The Medicaid reimbursement account was certified for both state and federal tax refund offset. We disagree with this finding as two enforcement actions were taken within the fiscal year.*

*In case C, the case was a medical assistance case, and the non-custodial parent was ordered to pay \$10 per week on Medicaid reimbursement, effective April 12, 2002. The case contained documentation that health insurance was not available. A payment of \$20 was received on May 13. We disagree with this finding as Medicaid reimbursement was ordered, and a payment was received in the last quarter of the fiscal year. Also, the court determined that medical insurance was not available.*

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS*****Other Matters Relating to Internal Controls and/or Compliance*****FINDING 02-CFC-13: The Cabinet For Families And Children Should Maintain Medical Support Information In The Kentucky Automated Support And Enforcement System (Continued)**

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*In case D, the order record does not show medical support ordered. This was a non-welfare case during the fiscal year. Child support is ordered, and we began receiving wage payments in February 2002. We disagree with the finding in this case as child support was enforced during the fiscal year, and payments are being received. This is not a Medicaid case, and the case contains no documentation that the custodial parent has requested a modification for medical support. The case contains documentation to show that the three (3) year notice of the right to request a review for modification, which includes a notification that a modification can be requested to include medical support, was sent to the custodial parent in March 2001.*

*Although we agree with the recommendation that all child support staff need training on medical support enforcement procedures, this training will be expensive in both the cost of conducting the training and in lost productivity while staff attends the training. Before expending the effort and cost, the Division of Child Support must finalize the procedures for medical support enforcement. We hoped the new Kentucky Child Support Handbook, which included the revision of the Medical Support Section, would be available on the Intranet by July 2002. With staff turnover in the Office of Technology and a shift in priorities for field staff, we could not accomplish this goal. The draft Medical Support Section, which is expected to be issued by early spring, has not been finalized and issued.*

*Historically, the Regional Child Support Office Manager monitored the work of each state employee by conducting spot checks of the worker's cases for accuracy and quality of work. Similar spot checks were not required for the Contracting Officials' staff. We are in the process of changing the role of state field staff to a technical assistance model. With the technical assistance model, state staff will provide training and technical assistance to the Contracting Official staff. In addition to training assistance, state field staff will complete case reviews on the Contracting Officials' cases. The review will include a criterion for meeting federal compliance with medical support enforcement. We hope to implement this change in State Fiscal Year 2004.*

*Finally, we agree that the documentation of pending and completed actions can be improved. We will issue a memorandum to all staff explaining the importance of documentation. Also, we will consider documentation in the case review process.*

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 01	01-CFC-3	The Cabinet For Families And Children Should Present Accurate Notes To The Schedule Of Expenditures Of Federal Awards	All	0	Due to improvements, this finding is downgraded to an other matter for FY 02. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .  See Other Matter Finding 02-CFC-11
FY 01	01-CFC-5	The Cabinet For Families And Children Should Comply with OMB Circular A-133 Compliance Supplement Appendix VII SAS 70 Examination Requirements	N/A	0	Resolved during FY 02.
FY 01	01-CFC-6	The Division Of Child Care Should Have Formalized Logical Security Procedures To Follow For The Kentucky Child Care Management System	N/A	0	Resolved during FY 02.
FY 01	01-CFC-7	The Cabinet For Families And Children Should Ensure Every Effort Is Made To Establish And Enforce Medical Support Obligations	93.563	0	Due to improvements, this finding is downgraded to an other matter for FY 02. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .  See Other Matter Finding 02-CFC-13.
FY 00	00-CFC-8	The Cabinet For Families And Children Should Establish And Enforce Medical Support Obligations For Custodial Parents	93.563	0	Due to improvements, this finding is downgraded to an other matter for FY 02. This finding is no longer required to be reported under <i>Government Auditing Standards</i> .  See Other Matter Finding 02-CFC-13.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 98	98-CFC-31	The Division Of Child Care Should Consistently Follow Logical Security Procedures For The Kentucky Child Care Management System	N/A	0	Resolved during FY 02.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 01	01-CFC-1	The Cabinet For Families And Children Should Improve Local Area Network Server Security And Consistently Apply Policies To All Servers	NA	0	Specific issues improved from the prior year, but additional occurrences were identified for certain servers so the same general issues existed. These issues were identified in six (6) new findings for FY 02. Two (2) of these findings are reportable conditions.  See 02-CFC-1 and 02-CFC-2.
FY 01	01-CFC-2	The Cabinet For Families And Children Should Maintain And Produce Records To Adequately Support Expenditures	93.558	0	FY02 testing revealed missing case files and documentation. CFC has made significant improvement, but weaknesses still exist.  See 02-CFC-15.
FY 01	01-CFC-4	The Cabinet For Families And Children Should Develop A Policy And Procedures Manual To Ensure Subrecipient Monitoring Is Properly Performed	17.253 93.558 93.563 93.568 93.575 93.596	0	CFC has made progress toward complying with audit recommendations; however, exceptions were still noted.  See 02-CFC-12.

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Reportable Conditions (Continued)</u></b>					
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 00	00-CFC-4	The Cabinet For Families And Children Should Impose Sanctions On Subrecipients Who Fail To Meet Audit Requirements Set Forth By OMB Circular A-133	93.558 93.563 93.575 93.596	0	CFC has made progress toward complying with audit recommendations; however, exceptions were still noted.  See 01-CFC-4 and 02-CFC-12.
FY 98	98-CFC-27	The Cabinet For Families And Children Should Maintain Records To Support Payments To Participants In The Kentucky Works Program	93.558	0	FY02 testing revealed missing case files and documentation. CFC has made significant improvement, but weaknesses still exist. Questioned costs were resolved in FY 01.  See 01-CFC-2 and 02-CFC-15.
FY 97				777	
FY 01				(777)	
Total Questioned Costs				<u>\$ 0</u>	

*(3) Corrective action taken is significantly different from corrective action previously reported:*

There were no findings for this section.

*(4) Audit finding is no longer valid and does not warrant further action:*

There were no findings for this section.

**Material Weaknesses/Noncompliances**

*(1) Audit findings that have been fully corrected:*

There were no findings for this section.

*(2) Audit findings not corrected or partially corrected:*

There were no findings for this section

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED JUNE 30, 2002**

<b>Fiscal Year</b>	<b>Finding Number</b>	<b>Finding</b>	<b>CFDA Number</b>	<b>Questioned Costs</b>	<b>Comments</b>
<b><u>Material Weaknesses/Noncompliances (Continued)</u></b>					
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings for this section					
<i>(4) Audit finding is no longer valid and does not warrant further action:</i>					
There were no findings for this section.					
<b><u>Other Matters</u></b>					
<i>(1) Audit findings that have been fully corrected:</i>					
FY 01	01-CFC-8	The Cabinet for Families And Children Should Establish A Claim Against Households Within The Required Time Period	10.561 93.558	0	Resolved during FY 02.
<i>(2) Audit findings not corrected or partially corrected:</i>					
There were no findings for this section.					
<i>(3) Corrective action taken is significantly different from corrective action previously reported:</i>					
There were no findings for this section.					
<i>(4) Audit finding is no longer valid and does not warrant further action:</i>					
FY 00	00-CFC-11	The Division Of Child Support Should Monitor Caseworkers To Ensure That Efforts Are Being Made To Establish And Enforce Support Obligations	93.563	0	No longer valid. Corrective action taken by CFC to resolve this finding.  See 01-CFC-7 and 02-CFC-13
FY 98	98-CFC-26	The Cabinet for Families And Children Should Implement Measures For Timely Audit Reports In Relation To Low Income Home Energy Assistance Branch	93.568	0	No longer valid. Corrective action taken by CFC to resolve this finding.

